

ASX Announcement
31 January 2023

**Q4 FY22 QUARTERLY ACTIVITIES REPORT
AND APPENDIX 4C**

Elixinol Wellness reports 20% revenue growth H2 FY22 versus H1 FY22; Acquisition of TSN expected to fast track the creation of Australia's first profitable hemp foods business

Key Highlights

- Elixinol Wellness announced it will implement schemes of arrangement with The Sustainable Nutrition Group Ltd (ASX: TSN) (TSN) to acquire 100% of TSN's ordinary shares and effect an exchange of options.
- The TSN acquisition will increase the size and scale of Elixinol Wellness and will result in the Group owning and operating brands across four key verticals: plant-based food and nutrition, hemp-based nutraceuticals (including cannabinoids such as CBD), pet nutritional supplements and skin health. TSN brands include Australian Primary Hemp, Mt Elephant, Field Day and The Australian Superfood Company.
- Elixinol Wellness Group Q4 FY22 revenue of \$1.9m¹, in line with prior quarter and reporting H2 FY22 revenues of \$3.8m, 20% growth versus H1 FY22 (\$3.2m).
- Operating cash used, excluding non-recurring items, during Q4 FY22 was \$1.5m, a 6% reduction on the prior quarter (Q3 FY22: \$1.6m).
- In addition to the cash held on 31 December 2022 of \$2.9m, the Company received approx. \$1.0m in January 2023 from the IRS from US COVID-19 relief measures. An additional \$0.5m is expected to shortly be received resulting in total available funding of \$4.4m.
- Hemp Foods Australia given two-year 'market exclusivity' to use Hemp Seed Oil as an ingredient in any listed medicine in the Australian market.
- U.S. Food and Drug Association (FDA) announced plans to establish a new regulatory pathway for hemp-derived cannabidiol (CBD) products

Elixinol Wellness Limited (**Elixinol Wellness, EXL** or the **Company**) (**ASX: EXL**) a global leader in the hemp industry, innovating, marketing and selling hemp-derived nutraceutical, food and topical products, releases its Quarterly Activities Report and Appendix 4C quarterly cash flow report for the quarter ended 31 December 2022 (**Q4 FY22**).

Global Chief Executive Officer (**Global CEO**), Ron Dufficy, commented: *"Through the quarter we announced the proposed acquisition of The Sustainable Nutrition Group, which will bring together our brands under four key verticals, while increasing the size and scale of the combined group.*

¹ All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q3 FY22 = 0.6836; FY22 financials are unaudited.

In this activities report, we're highlighting proforma revenue including TSN for the first time, which shows sequential quarterly growth over FY2022. The schemes of arrangement with TSN are expected to close in late March 2023.

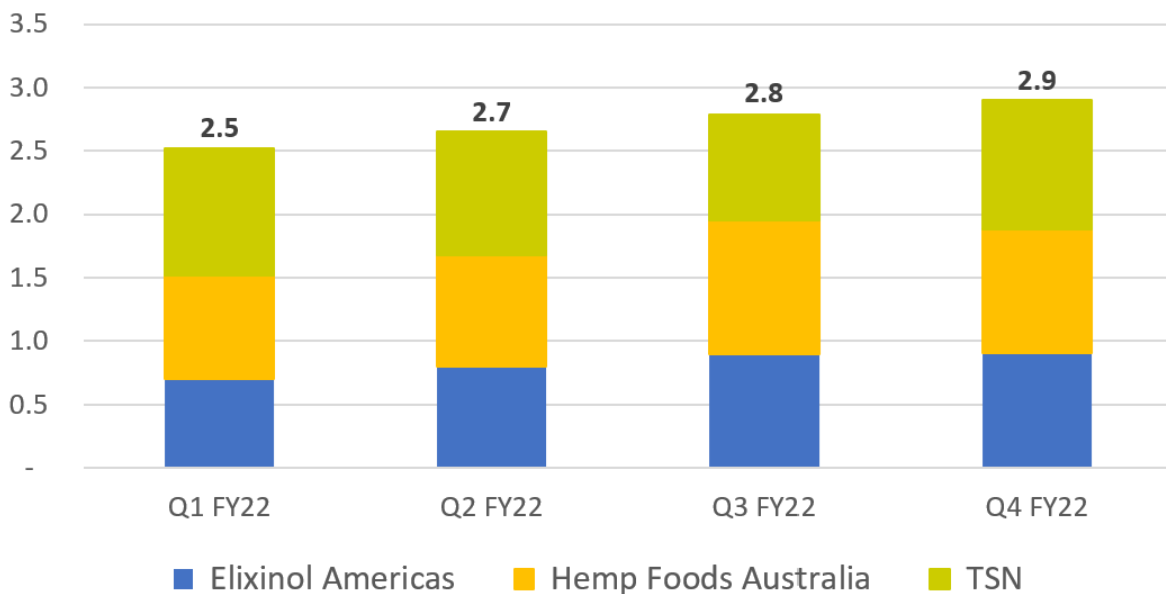
An operational highlight for Elixinol in the Americas occurred at the end of the December quarter, when we launched our new hemp-derived minor cannabinoid products such as THCV and CBD + Delta-9 gummies product lines. The new product line quickly moved into the top five product positions by revenue. Excitingly, in H1 FY23 we will also be launching 'Elixinol Life', our new non-CBD vitamin, mineral and supplements (VMS) product lines. This product launch is strategically important as it will enable Elixinol branded products to be more readily sold in traditional retail channels in the US while the regulatory pathway for CBD products is outlined by the Food and Drug Association."

Financial summary

The Company reported revenue of \$1.9m for Q4 FY22, in line with the prior quarter, contributing to reported H2 FY22 revenues of \$3.8m, 20% growth vs H1 FY22 (\$3.2m).

On a pro forma basis including the contribution of TSN, the combined revenue for Q4 FY22 was \$2.9m, representing an increase on the prior quarter of 4% (pro forma combined Q3 FY22: \$2.8m). The below chart reports historical (unaudited) quarterly pro-forma revenues, including TSN.

Pro-forma Revenue by Quarter (A\$m)¹



Operating cash used, excluding non-recurring items, during Q4 FY22 was \$1.5m, a 6% reduction versus the prior quarter (Q3 FY22: \$1.6m), as a result of the Company's ongoing focus on cost reduction and offset by the new THCV and CBD + Delta-9 product line which was launched in the US toward the end of December 2022, with those products quickly becoming some of the best-selling SKUs in the portfolio. These new product launches contributed to additional inventory purchases of \$0.2m compared to the prior period.

In conjunction with the proposed TSN acquisition, the Company has agreed to provide a loan to TSN of up to \$2.0m to ensure outstanding liabilities to hemp growers are fully paid. This surplus inventory of hemp grain is expected to reduce the ongoing cash requirements of the combined Australian business over the next 12-18 months. The Company will continue to work with Australian farmers to help develop a sustainable hemp growing industry, which is fundamental to the Company's strategy. A total of \$1.2m was drawn down on this loan throughout the quarter.

In addition to the cash held on 31 December 2022 of \$2.9m, the Company received approx. \$1.0m in January 2023 from the US Internal Revenue Service (**IRS**) from its US COVID-19 relief measures. An additional \$0.5m is also expected to shortly be received, resulting in total available funding of \$4.4m. The Company is also exploring debt funding alternatives to support working capital requirements associated with the launch of new products and growth of its revenue.

Hemp Foods Australia update

Hemp Foods Australia reported an 7% decrease in revenue (Q4 FY22: \$978k vs Q3 FY22: \$1,054k), driven by timing of purchase orders with national retail operators, while ecommerce sales were up slightly on the prior quarter. Hemp Foods Australia has had a strong start to FY23 with January sales expected to be approx. \$370k led by strong sales to Costco.

Following the stocking of Hemp Food Australia's certified organic 250ml Hemp Gold Seed Oil in more than 100 Woolworth stores last year, the Company has received confirmation that distribution of the oil is going national, with the product to be stocked across 948 Woolworths stores from February 2023.

The national Woolworths roll-out marks the launch of a complete rebrand with a fresh look and feel for Hemp Food Australia's product range.



Hemp Foods Australia's Seed Mix range of four SKUs, which was ranged in 830 Coles stores nation-wide in September 2022, continues to perform strongly. The Company is developing an additional two SKUs to support and extend the range.

In December 2021, Hemp Foods Australia submitted a New Ingredient Application for its Hemp Seed Oil (**HSO**) with the Australian regulator, the Therapeutic Goods Administration (**TGA**). On 29 November 2022, Hemp Foods Australia received the TGA's approval of its application, which means HSO is now accepted as safe and of appropriate quality to be a 'permissible ingredient' in Listed Medicines (being therapeutic goods listed in the Australian Register of Therapeutic Goods).

The Therapeutic Goods (Permissible Ingredients) Determination was also subsequently updated to include HSO. The *Therapeutic Goods (Permissible Ingredients) Determination (No. 5) 2022* has now been published on the [Federal Register of Legislation](#), with a commencement date of 29 November 2022.

As a result, Hemp Foods Australia has been afforded a two-year period of 'market exclusivity' to use and supply the ingredient for listed complementary medicines in the Australian market. This exclusivity provides a first mover advantage and serves as a point of differentiation with competitors and will enable Hemp Foods Australia to exclusively produce, sell and/or licence products that include the HSO ingredient for two years with exclusivity to make claims on those products over that period. Taking advantage of this position, the Company plans to launch an entirely new range of HSO capsules in the coming months.

Elixinol Americas update

The Elixinol Americas business finished slightly up (1%) with Q4 FY22 revenue of \$906k, compared to \$900k in Q3 FY22. The ecommerce channel grew following a successful holiday promotional schedule. Digital marketing campaigns drove an increase in email-led revenue up 17% and site users up 15% through Q4 versus Q3 and December 2022 ecommerce revenue was up 26% compared to 2021. Subscription-based revenue accounted for 21% of reported revenues in 2022.

The traditional retail channel for Elixinol's branded CBD products continues to underperform due to the ongoing unclear regulatory status of CBD products. On 26 January 2023 the U.S. Food and Drug Association (FDA) announced plans to establish a new regulatory pathway for hemp-derived cannabidiol (CBD) products. The FDA stated that a new regulatory pathway would benefit consumers by providing safeguards and oversight to manage and minimise risks related to CBD products.

Toward the end of December 2022, Elixinol Americas launched two new hemp-derived minor cannabinoid products, THCV and CBD + Delta-9, which have performed strongly and have quickly moved into the top 5 best-selling SKUs by revenue/units sold.

Elixinol's 'Unwind' blackberry-flavoured Delta-9 THC gummies have a ratio of 5:1 of CBD and THC for a complementary profile aimed at providing extra wellness benefits. The new 'Fit+Focus' grapefruit flavoured THCV gummies harness the power of THCV, a hemp-derived cannabinoid with energising qualities and a reputation for helping to support appetite suppression.



Also, at the end of the quarter, Elixinol Americas placed production orders for 6,500 units of each of its three 'Elixinol Life' SKUs, the new non-CBD product line, which equates to a retail value of approximately US\$500k. This first order is expected to be received into our third-party fulfilment centre and ready for first shipment to customers in March 2023. 'Elixinol Life' represents the Company's first range of high potency, plant-based, non-CBD vitamin, mineral and supplements (**VMS**) product line that has been presented to several large national retailers. The Company awaits confirmation of ranging, expected in Q1 FY23.



Appendix 4C commentary

During the quarter the Company reported operating cash expenditures, excluding non-recurring items, of \$3.3m, a further 6% reduction compared with the previous quarter (Q3 FY22: \$3.5m) and a 39% reduction versus PCP (Q4 FY21: \$5.4m). These expenditures supported shifting revenue toward direct-to-consumer channels and expanding e-commerce capabilities, as well as investment in inventory for new product development,

brand building, and the expansion of traditional retail distribution (in particular, in Australia via Hemp Foods Australia). The expenditures incurred across the Company's business segments were as follows: Americas \$1.5m, Europe \$0.0m, Australia \$0.9m and Corporate \$0.8m. In addition, there was \$0.2m of non-recurring operating cash expenditures in relation to the proposed acquisition of The Sustainable Nutrition Group.

The Company reported payments to related parties totalling \$92,000. These payments comprise non-executive director fees.

Proposed acquisition of The Sustainable Nutrition Group

On 29 November 2022, Elixinol Wellness announced plans to implement schemes of arrangement (**Schemes**) with The Sustainable Nutrition Group Ltd (ASX: TSN) (**TSN**) to acquire 100% of TSN's ordinary shares and effect an exchange of options.

The acquisition increases size and scale for both Elixinol Wellness and TSN and will see the Group expand to own and operate brands across four key verticals: plant-based food and nutrition, hemp-based nutraceuticals (including cannabinoids such as CBD), pet nutritional supplements and skin health. TSN brands include Australian Primary Hemp, Mt Elephant, Field Day and The Australian Superfood Company.

The proposed acquisition of TSN aligns with Elixinol Wellness' strategic objectives of being a premium hemp and plant-based health and wellness company, and will provide the following benefits to the group:

- Creates a global plant-based food, health and wellness company: Optimises access to supply chains in Australia and enables the group to leverage access to one of the largest contract growers networks in Australia.
- Highly complementary product set with improved product innovation: Number of brands increase from four to eight across the human nutrition, food, CBD, pet, and wellness verticals. Additionally, the combined group's new product development and IP sharing will assist in driving cost effective growth, whilst also accelerating e-commerce growth with the increased product range aimed to increase growth in website traffic and online sales through seven e-commerce sites, including in the US.
- Expands distribution network: Immediately broadens distribution capabilities across Australia from 2,300 locations to 4,100 locations, providing substantial cross-sell opportunities for EXL and TSN brands, and the ability for EXL and TSN to expand existing relationships with partners and distributors.
- Increases size and scale: Leveraging the strategic reviews conducted by both TSN and EXL, the combined group aims to realise economies of scale through the rationalisation of operations and distribution channels. The combined group targets cost and revenue synergies to be realised over time, as well as margin expansion through the consolidation of operations.
- Leveraged to strong sector tailwinds: The combined group is positioned to leverage the mainstream shift towards plant-based, sustainable nutrition products. The global plant-based protein market is expected to significantly grow from US\$10.3bn in 2020 to US\$17.5bn in 2027².

² UnivDatos Market Insights: Plant-Based Protein Market. Current Analysis and Forecast 2021-2027, July 2021.

Indicative timetable and next steps

A Scheme booklet containing information relating to the Schemes, the reasons for the TSN directors' recommendation, the Independent Expert's report and details of the Scheme Meetings will be dispatched to TSN shareholders and TSN Scheme Option holders in advance of the Scheme Meetings.

An indicative timetable for completion of the transactions the subject of the Schemes is set out below. This timetable is indicative only and is subject to change due to factors including the timing of any necessary regulatory approvals.

First Court Hearing	Early February 2023
Scheme Meetings	Early March 2023
Second Court Hearing	Early March 2023
Effective Date	Late March 2023
Record Date	Late March 2023
Implementation Date	Late March 2023

More information on the proposed acquisition, benefits and next steps can be seen at the Elixinol Wellness website at www.elixinolwellness.com.

Note to Market

None of the information included in this announcement should be considered individually material, unless specifically stated. All figures in this announcement are provided on an unaudited basis. This Company presentation may include certain statements, estimates or projections with respect to the anticipated future performance of the Company, and any ongoing or future projects or both. Those statements, estimates or projections are based on assumptions about future events and management actions that may not necessarily take place and are subject to significant uncertainties, many of which are outside the control of the Company. Those assumptions may, or may not, prove correct. No representation is made as to the accuracy of those statements, estimates or projections.

This document was authorised to be given to the ASX by the Board of the Company.

Investor relations please contact:

Ron Dufficy, Global CEO

ron.dufficy@elixinolwellness.com

About Elixinol Wellness

Elixinol Wellness Limited (ASX: EXL) is a global leader in the hemp industry, innovating, marketing and selling hemp and other plant derived nutraceutical, cosmetic and food products. The Company's simplified business model is focusing on:

- In the Americas, innovating, marketing and selling high quality Elixinol branded hemp and other plant derived nutraceutical and skincare products based in Colorado, USA
- In Australia, Hemp Foods Australia is a leading hemp food wholesaler, retailer, manufacturer and exporter of bulk and branded raw materials, and finished products
- In the United Kingdom, South Africa, Japan, Brazil, Mexico and Malaysia (pending approvals), branded hemp and other plant derived products are available to consumers via exclusive Distribution and/or Trademark and Know-How Licensing Agreements
- Across the Rest of World, expanding distribution of branded hemp and other plant derived products through reputable distributors as key markets open.

See more at www.elixinolwellness.com

About The Sustainable Nutrition Group Ltd (TSN)

TSN is a vertically integrated business which produces, manufactures, and distributes a range of sustainable and plant-based nutrition brands, including hemp products under the Mt Elephant, Australian Primary Hemp, Field Day and The Australian Superfood Company brands to retail, wholesale, e-commerce and white label customers in Australia. TSN engages across the value chain encompassing seed selection, farming, processing, packaging, distribution and sales of bulk, food service and retail products.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Elixinol Wellness Limited

ABN

34 621 479 794

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,786	6,999
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,224)	(4,506)
(c) advertising and marketing	(226)	(1,292)
(d) leased assets	(26)	(103)
(e) staff costs	(1,064)	(6,049)
(f) administration and corporate costs	(791)	(3,849)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	22
1.5 Interest and other costs of finance paid	(17)	(71)
1.6 Income taxes paid/(received)	(12)	523
1.7 Government grants and tax incentives	40	364
1.8 Other – non recurring	(190)	(190)
1.9 Net cash from / (used in) operating activities	(1,717)	(8,152)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(g) entities	-	-
(h) businesses	-	-
(i) property, plant and equipment	(5)	(5)
(j) investments	-	-
(k) intellectual property	-	(7)
(l) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	238	291
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(1,148)	(1,148)
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(915)	(869)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(182)	(757)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	(182)	(757)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,675	12,649
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,717)	(8,152)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(915)	(869)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(182)	(757)
4.5	Effect of movement in exchange rates on cash held	3	(7)
4.6	Cash and cash equivalents at end of period	2,864	2,864

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,864	5,675
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,864	5,675

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	92
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	--
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities		-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	N/A	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,717)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,864
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,864
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	The Company implemented costs saving of over \$3.2m as previously announced during FY22 and continues to review and control costs as it grows its revenue base. In addition, during Q4 FY22 investments for new product launches and reasonable inventory purchases have been made. As a result of the unwinding of working capital position the level net operating cash flows is expected to improve.

- 8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Yes, in addition to the cash held at 31 December 2022, the Company has receivables of approx. \$1.5m (US\$1.0m) due from the IRS from US ERTC COVID-19 relief measures, resulting in approx. in funding of \$4.4m available (includes \$2.9m cash on hand plus \$1.5m one-off US Covid-19 receivable).

\$1.0m of the ERTC funding was received in January 2023 with the remaining expected to be received over the coming months.

In addition, the company is continuing to explore debt funding and other alternatives to support the working capital requirement associated with growing its revenue base.

- 8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes, the Company expects to be able to continue its operations and meet its business objectives. The company intends to be funded through existing and new facilities to enable its business objectives to be met and expects the decrease in net cash outflows to be supported by existing and new revenue initiatives going forward.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

31 January 2023

Date:

The Board

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards

Quarterly cash flow report for entities subject to Listing Rule 4.7B

and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.